STATE OF LOUISIANA

OFFICE OF FINANCIAL INSTITUTIONS

BATON ROUGE, LOUISIANA

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PRESS RELEASE
February 20, 2006

COMMISSIONER OF SECURITIES RELEASES LIST OF COMMON INVESTMENT SCAMS

Commissioner of Securities John Ducrest today outlined a forecast of the 13 most common ways investors are likely to be scammed in 2006. Commissioner Ducrest said, "Investment scams can be devastating for the investor who falls victim, both financially and emotionally. Scams come in many disguises, but they all share a common goal of separating victims from their money. As regulators, we are especially concerned that as the first of the Baby Boomers turn 60 this year they not become trapped in bad investments as their retirement nears."

Listed alphabetically below are the scams Commissioner Ducrest considers as posing the greatest potential threats to investors this year:

Affinity Fraud. Con artists frequently target members of closely knit religious, political, or ethnic groups. Their sales pitch is essentially, "Since I am like you and believe like you, you can believe in me and in what I say." When an investment is presented in this context, the potential investor should be extremely wary.

Churning. Churning is an abusive sales practice in which unethical securities professionals make unnecessary and/or excessive trades in order to generate commissions. Most churning occurs where a broker has discretion to trade the account. In such cases, it is not necessary that the broker receive prior approval from the client to complete a transaction.

Equity Indexed Certificates of Deposit. Remember the days of FDIC-insured, bank-issued certificates of deposit with guaranteed principal and interest? Equity Indexed CDs are **not** the same product. These hybrid securities products offer an interest coupon payment or return that is based on a stock market index, usually the S&P 500. Returns are not FDIC insured. They are dependent on the performance of the stock market. These are complex securities that promise a rate of return calculated over a defined period of time based upon some form of securities market index. A declining stock market means the possibility of no return on your investment. As a result, these products pose liquidity problems and are therefore, not suitable for seniors who may need the money for retirement living.

Oil and Gas Investment Fraud. High oil prices mean oil and gas scams will continue to attract victims. Oil and gas deals are very complex and generally require a significant investment. Increasingly, these deals are being promoted via the Internet with claims of attractive tax advantages. "Official-looking" sales materials are often provided, complete with surveyor maps and geologist opinion letters recommending the investment. Overall, these deals are highly risky.

Personal Information Scams. These scams originate by convincing the victim to divulge personal financial information. The con artist may accomplish this while gathering information from the victim under the guise of preparing a "living will" or "living trust." A new approach is the offer to help senior citizens qualify for prescription benefits by assisting in the preparation of forms. While gathering this information, the con artist may ask unnecessary questions about personal financial assets, which provides a comprehensive list of what is available for the taking.

Prime Bank Schemes. These schemes often promise high-yield, tax-free returns that are said to result from "off-shore trades of bank debentures." Investors are told that these programs are usually made available to only the very wealthy. Sometimes the victim is required to execute a "confidentiality agreement" in order to invest. They are often told not to consult an attorney, accountant, or financial planner because they keep these programs for their rich clients and will deny that they exist. There are no such programs, no such debentures, and no such high-yield trades.

Pump and Dump Schemes. Unethical broker-dealers frequently "pump" up the value of low-priced securities traded on the NASDAQ Pink Sheets, a stock quotation service that handles high-risk ventures and isn't regulated by the Securities and Exchange Commission. The brokers then "dump" the stock after naïve investors have purchased the stock at inflated prices, leaving investors holding worthless shares. These schemes frequently appear through unsolicited e-mail messages.

Recovery Rooms. Scam artists sell the names and financial information of previous fraud victims to "recovery room" operators who contact the victim and promise to recover the money previously lost, in return for an up-front fee. These "sucker lists" are bought by crooks who know that people who have been deceived once are vulnerable to additional scams, especially those that give hope of recovering lost money. If you have been the victim of a fraud, never give out your credit card or other personal information to someone who contacts you with a promise to recover your money.

Publicly Advertised High-Interest Promissory Notes. Generally, the higher the return promised, the greater the risk to your money. A track record of paying high interest and repaying principal is not an assurance that you will get your money back if the company fails. These notes are not suitable for retirement funds.

Sale and Leaseback Contracts. These investments are marketed as the sale of income-producing property or equipment to the victim. Often, the property or equipment is located far away, and the investor is urged to enter into a servicing agreement with the promoter. The investor is usually promised a specific rate of return and, in order to make the deal more attractive, is told that after a certain period of time, the property or equipment can be sold back to the promoter at the investor's original purchase price. Frequently, the property or equipment does not exist, and the seller lacks the financial capacity to keep the promise of repurchase.

Self-Directed Pension Plans. This scam usually begins with advice to convert an employer-sponsored pension into a self-directed pension plan, but may result in the victim transferring funds from legitimate investments such as brokerage accounts or mutual funds into a worthless scam. While such plans may serve legitimate investment purposes, all too often they only serve to benefit the scam artist through high commissions and fees.

Unsuitable Recommendations. Just as every investor is different, so too are investments. What may be a suitable investment for one investor may not be right for another. Securities professionals must know their customer's financial situation and refrain from making recommendations of securities that they have reason to believe are unsuitable. When securities professionals fail to live up to applicable ethical standards, great harm can be done to individual investors.

Variable Annuities. Variable annuities are tax-deferred investments that typically place mutual funds inside of an insurance wrapper for tax deferred potential investment growth. While these products are legitimate investments, regulators are concerned about their popularity in the sales community. Commissions to those who sell variable annuities are very high, which provides incentive for sellers to engage in inappropriate sales. Variable annuities are only suitable for a very small percentage of the investing public and generally are not appropriate for most seniors. The steep penalties for early withdrawals also make variable annuities unsuitable for short-term investors. Be especially wary of any broker who wants to sell you a variable annuity to hold inside a 401(k) or IRA. You are already getting tax-deferred growth in an IRA or a 401(k), and the variable annuity simply adds a layer of cost with no additional tax benefit.

Commissioner Ducrest recommends that investors ask the following questions before making any investment:

- Are the seller and investment licensed and registered in the state?
- Has the seller given you written information that fully explains the investment?
- Are the claims made by the seller regarding the investment's expected rate of return realistic?
- Does the investment meet your personal investment goals and risk tolerance?

Commissioner Ducrest also urges investors to contact his office with any questions about an investment product, broker-dealer, or investment adviser.

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